

**TESTIMONY BY AMBASSADOR JAMES JEFFREY
SENIOR ADVISOR TO THE SECRETARY OF STATE FOR IRAQ
BEFORE
THE HOUSE INTERNATIONAL RELATIONS COMMITTEE ,
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Chairman Hyde, Mr. Lantos, members of the Committee, it is an honor to be here today to discuss our Strategy for Victory in Iraq and the important role of reconstruction in that effort.

The U.S. objective in Iraq is a federal, democratic, pluralistic and united Iraq, stable, at peace with its neighbors, prosperous, and an ally in the Global War on Terrorism. To accomplish this, all our efforts support the President's three strategic tracks -- security, political, and economic -- with the intent of having the Iraqis eventually take complete responsibility for these tracks. Our experience has demonstrated that this transition cannot be sustained without integrated progress on all three tracks. This must not only be in full consultation with the Iraqis, but increasingly with them in the lead. We are dealing with a highly political struggle for power, which is at the heart of the insurgency, and only Iraqis can determine the path ahead -- the compromises, the critical issues, and the shape of their politics

We have seen significant progress in recent weeks along the political track. Following a series of major electoral events, the Iraqi Council of Representatives recently approved the formation of a new government under Prime Minister Maliki. The delay in the appointment of the Ministers of Interior and Defense reveal legitimate divergences of opinion among the Iraqi political parties. We are encouraging the Iraqis to resolve these differences sooner rather than later. We are now at a turning point where political progress must be measured by significant steps taken by the democratically elected Iraqi leaders, rather than the successful accomplishment of well identified events laid out by U.N. Security Council resolutions or Iraq's Transitional Administrative Law. Success in these tasks will require determination and the ability to execute a myriad of small decisions correctly that will have a positive cumulative effect, rather than pulling off the big, spectacular event, such as a national election. Participation by all communities in Iraq will be important both to a successful outcome and the fostering of a sense of national reconciliation, along the lines of the Prime Minister's well received statement Tuesday. As discussed above, forward movement on the political track helps to advance efforts in the economic and security tracks as well.

One area in particular where we are committed, with the Iraqis, to seeing an immediate reversal is in the recent rise in sectarian violence. This is a top priority with both governments. Our joint security, political and economic initiatives are intended to help cement national unity.

Similarly, foreign assistance, led by the flagship U.S. programs, IRRF I and II, totaling \$20.9 billion, is essential to progress on all tracks. Supporting only the security track is not enough. Progress on the economic and political tracks is equally critical to victory, and this progress requires U.S., other international, and Iraqi funding, to augment the IRRF, whose new obligations authority expires this year. In particular, funding our teams that work closely with key Iraqi institutions, such as the Council of Representatives, the provincial governments and

national ministries will be critical to our success in ensuring the democratic and effective character of these institutions.

In 2003, the World Bank estimated that rebuilding Iraq's dilapidated infrastructure would require over \$50 billion. The IRRF II \$18.4 billion program was designed by the Administration and Congress, not to take on that entire burden, but, rather, to quickly respond to the most pressing needs, including repairing an infrastructure neglected for over 20 years, increasing oil production and export, providing key essential services, developing Iraqi security forces, and strengthening democratic institutions and the private sector development. To a considerable degree IRRF II, supplementing the initial \$2.5 billion in IRRF I, is accomplishing that mission.

Reconstruction, generally speaking, can be described as a series of successes and some setbacks. We have been successful in rehabilitating water and sewage services and immunizing nearly all children against childhood diseases but face problems with capacity in the service delivery ministries. While efforts in the oil and electricity sectors have been hampered by years of mismanagement, neglect, smuggling, corruption and decay during the Saddam era, and targeted attacks on critical infrastructure, we have increased Iraq's total potential electrical generation capability by 30 percent. The dramatic increases in income in post-conflict Iraq (income per capita has nearly doubled from 2003 to 2005) has resulted in new vehicle and appliance purchases as well as increasing demand for fuel and electricity, but without a corresponding rationalization in pricing for these goods and services.

We are making progress. Almost all of the large infrastructure projects currently funded by the IRRF are expected to be completed by the end of the year. These projects are already having a significant impact on daily life in Iraq. IRRF projects have added, rehabilitated, or maintained more than 2700 megawatts of electricity. IRRF projects have increased access to potable drinking water for 3.1 million Iraqis and improved access to sewage systems for 5.1 million Iraqis. Success can be seen beyond the large infrastructure projects as well. Approximately 32 percent of Iraq's more than 14,000 schools have been rehabilitated or refurbished, including the provision of 8.7 million new textbooks. We have helped Iraq launch a stable new currency and stock exchange, develop more transparent budget procedures, and make millions of dollars in job-creating loans to micro, small, and medium-sized enterprises. Our technical assistance programs and diplomatic engagement have facilitated Iraq's reintegration into the global economic community, including an IMF reform program, its WTO accessions process, and a hugely successful Paris Club debt relief program. These are all admirable achievements, particularly when one considers the environment in which they were achieved.

Meanwhile, with the end of IRRF availability approaching, closeout of the IRRF has begun. As of May 30, of the \$18.4 billion appropriated in IRRF II, \$16.6 billion has already been obligated and \$12.3 billion has been disbursed, in addition to the \$2.5 billion from IRRF I. Our proposed FY 06 supplemental and FY 07 base budget assistance programs totaling almost \$2.4 billion will help Iraq in its transition to self-reliance in the civilian realm by focusing on building Iraqi capacity at the national and provincial levels and supporting emergency stabilization programs.

To ensure that the benefits of this progress reach the entire Iraqi population, we have initiated five Provincial Reconstruction Teams, with more to come, to strengthen provincial and regional governments as previously described by Secretary Rice.

I am also delighted to be here today with my colleague, Mr. Stuart Bowen. His organization, the Special Inspector General for Iraq Reconstruction (SIGIR), and other organizations within the Iraq IG working group that monitor our activities have done an incredible job under the austere and dangerous conditions with which we operate in Iraq. The Secretary has, on numerous occasions, reiterated her support to his agency's on-going activities in every way possible. I know Ambassador Zal Khalilzad echoes these sentiments.

What we do recognize is that the IRRF alone will not complete our work, as Mr. Bowen has suggested. But right now, our priority will be to complete the IRRF program's projects that are vital to boosting the Iraqi economy and capacity. At the same time, we will continue to work to convince our friends and allies to disburse the remainder of the \$13.5 billion pledged at the Madrid Conference and consider additional funding. As SIGIR reported at the end of April, our international partners have made more than \$800 million in new pledges since Madrid. The UN and the World Bank Trust Funds have made notable progress in implementing their projects as well. The UN has signed contracts for \$602 million and disbursed more than \$465 million of the \$910 million in its trust fund, and the Bank has contracted for \$172 million and disbursed \$55 million of the \$458 million in its trust fund. We are also looking at new modalities, possibly including an "international compact," to better link the global community with Iraq.

We continue to work actively with our international partners, including the IMF and World Bank, to increase support for the new Iraqi government. It will be important to build on existing coordination structures, like the IRRFI and the SBA. It will be critical that future assistance efforts also reinforce Iraqi commitments to undertake economic, political, and security reforms. We are consulting now with the Iraqi government on the best way forward. Our FY 2006 supplemental request of \$1.6 billion and our FY 2007 base assistance submission of \$771 million represent a shift away from the large infrastructure projects the IRRF funded to a focused capacity-building program that will help enable Iraqis to build and sustain a democratic society and healthy economy. Some of the programs funded will include infrastructure sustainment, capacity building at core Iraqi ministries, banking reform, agricultural development, rule of law, and democracy and civil society programs. As the House moves today to consider the FY 2007 foreign operations appropriations bill, we will look to your support for our continued activities in Iraq, including the State Department and USAID operating budgets.

Finally, let me again today commit the Department of State and our Mission in Baghdad to the most efficient, transparent, cost-conscious execution of funds entrusted to us, in the service of extraordinary national objectives, and to the best possible working relationship with those organizations such as SIGIR and GAO who provide valuable oversight.